

## FELLOW SHAREHOLDERS

We are very pleased to report one of the best years in Culp's history.

Our financial and operating results in fiscal 2013 demonstrate our consistent ability to execute our strategy in a dynamic global marketplace. Our sales for the year were up six percent and our pre-tax profits increased 43 percent to \$20.3 million, the highest level since 1998.

Both of our businesses delivered a solid performance by remaining focused on what is important to our customers – creative designs, a wide range of innovative products and outstanding service. We have continued to leverage our efficient global manufacturing platform to enhance our service capabilities and to meet the changing style demands of our customers. This strategy has enabled us to improve our return on capital from 22 percent to 29 percent, the highest level since the company went public in 1983. In addition, our strong cash flow and balance sheet provide us with the financial flexibility to continue to pursue organic growth initiatives and make strategic investments in both of our businesses.

We are especially excited about the outstanding progress we have demonstrated in product innovation and design creativity. These efforts have made a significant contribution to our sales and profit performance for the year, with an increasing percentage of our sales coming from new product introductions. Our ability to sustain excellence in creating innovative fabrics season after season, and meet the demands of our customers, is a key driver to our long-term success.

## CASH RETURNED TO SHAREHOLDERS

We were also very pleased to return \$12.6 million to our shareholders in fiscal 2013 through \$7.6 million in dividends and \$5.0 million in share repurchases. Importantly, over the last two fiscal years, the company has repurchased a total of 1.1 million shares, or 8.5 percent of our outstanding shares, for \$10.4 million at an average price of \$9.23 per share. At the end of fiscal 2013, we also announced a 33 percent increase in our quarterly cash dividend from \$0.03 to \$0.04 per share, commencing the first quarter of fiscal 2014. We believe these actions further demonstrate both our confidence in Culp's future and our commitment to building shareholder value.

## MATTRESS FABRICS SEGMENT

For the year, mattress fabric sales were \$154.0 million, the highest annual sales level for this division in company history. Overall, we demonstrated a very consistent performance throughout the year with both improved sales and higher profitability over fiscal 2012. These results reflect our focus on product innovation and the ability to maximize the efficiencies and flexibility of our manufacturing platform. We have continued to make strategic investments in our business and enhance our reactive capacity to offer a full complement of the latest technologies, design expertise, production capabilities and exceptional service.

Our success over the past year reflects our ability to respond to customers' needs and changing demand trends. More than ever,

the bedding industry is demanding innovation, and Culp is uniquely positioned with a flexible and diverse manufacturing platform that offers a wide range of product offerings and rapid speed-to-market. We are a true full-service fabric supplier to the bedding industry, with strong focus and placement in all major product lines, from the promotional to the premium segments of the market. The higher-end mattress segment has continued to demonstrate the strongest growth, as consumer trends indicate a greater number of purchases of better bedding with more of a tailored and upholstery-type look. In addition to Culp's wide array of mattress fabrics, we can support this demand with our excellent design capabilities and expertise from our upholstery fabrics business to achieve today's fashionable look. Our innovative designs have been well received in the marketplace with strong product placements with key customers

We made meaningful progress in fiscal 2013 with our latest business venture, Culp-Lava, established to produce and market mattress covers. With this expanded capability, we have a manufacturing platform that adds further value to the mattress industry supply chain - from weaving, knitting and finishing to our latest cut and sew operation for mattress sewn covers. We began production of covers during the second quarter in our new Stokesdale, North Carolina, manufacturing facility, developed specifically for this operation. We are pleased with the favorable operating synergies and sales contribution to date as we have focused on the specialized training and development necessary to establish this new venture. As we continue to gradually add capacity, we believe Culp is well positioned to capitalize on meeting demand for the growing specialty bedding sector of the mattress industry. We are very excited about the potential growth opportunities as we continue to enhance Culp's leadership position in the bedding industry.

## UPHOLSTERY FABRICS SEGMENT

We are pleased with the performance of our upholstery fabrics business in fiscal 2013. Sales for this segment totaled \$114.8 million, a 5.4 percent increase compared with \$108.9 million in fiscal 2012, marking four consecutive years of sales growth for this segment.

The higher annual sales and improved profitability primarily reflect a positive response to our innovative designs and diverse product offering. Our customers appreciate the value in our creativity, innovation and relevance to current furniture style trends. We have been especially pleased with the success of our newest product introductions with favorable product placements.

China produced fabrics have continued to be the key driver of our sales and accounted for approximately 90 percent of upholstery fabric sales this year. With our 100 percent-owned and scalable China platform, we are well positioned to provide our growing global customer base with a wide variety of innovative products along with outstanding quality and delivery performance. We have significant manufacturing flexibility, creative design capabilities, and a strong commitment to customer service - all important advantages that allow us to more effectively meet the demands of a global marketplace.

We are encouraged with the stable sales level and steady progress with key customers we have made with respect to Culp Europe, especially in the face of a weak European business climate. In spite of ongoing challenges, we remain optimistic about the long-term opportunities for Culp Europe.

## BALANCE SHEET AND FREE CASH FLOW

Maintaining a strong financial position and generating free cash flow were top priorities for Culp in fiscal 2013. Due to our focused efforts, we achieved \$13.1 million in free cash flow, after spending \$11.0 million in capital expenditures and working capital. As of April 28, 2013, we reported \$28.8 million in cash and cash equivalents and short-term investments, or total cash, compared with \$31.0 million at the end of fiscal 2012. Notably, we were able to maintain this strong cash position after the payment of \$7.6 million in dividends, \$5.0 million in share repurchases, and \$2.8 million in debt payments. Total debt, which includes long-term debt plus current maturities of long-term debt and our line of credit, was \$7.2 million at the end of fiscal 2013, down from \$10.0 million at the end of fiscal 2012. We have since made a scheduled \$2.2 million principal payment in August 2013, with two remaining annual \$2.2 million payments due August 2014 and 2015.

## CAPITAL ALLOCATION STRATEGY

We have continued to pursue a disciplined approach to capital allocation. This discipline has involved using free cash flow to pay down debt and invest in the mattress fabrics business, through capital expenditures and two acquisitions, totaling about \$50 million since fiscal 2007. During fiscal 2011, we also implemented an Economic Value Added, or EVA, platform for incentive compensation, which further promotes the importance of the efficient use of capital. This approach has resulted in a return on capital of 29 percent for fiscal 2013. At the same time, we also returned a substantial amount of funds to shareholders in fiscal 2013 through share repurchase and dividends, both quarterly and special payments.

Going forward, we will continue to prioritize our use of capital. The first priority will always be to invest in our existing businesses with working capital and capital expenditures to grow organically. We believe this approach offers the highest returns with the least risk. Secondly, we initiated a regular quarterly cash dividend a year ago, and, as noted, have increased it by 33 percent beginning with our July dividend payment. With the free cash flow we expect to continue generating, our goal is to increase the regular dividend on a moderate basis over the years ahead, based upon performance. Third, we are open to strategic acquisitions in our mattress fabrics business. We have invested \$20 million in two great acquisitions in this segment since fiscal 2007, both of which added significant value. Fourth, our goal has been to build our net cash position, which equals total cash minus total debt, to the levels achieved this fiscal year. Our goal for fiscal 2014 is to build upon this net cash level. This seems to be a prudent strategy at this time and provides us plenty of flexibility to be opportunistic. Finally, after the above priorities, and assuming an acquisition does not materialize, we expect to generate free cash flow that will allow us to consider continued actions that will return funds to shareholders. As we have done over the last two fiscal years, our plan would be to use those

excess funds for share repurchases and special dividends, assuming certain conditions are met. With respect to share repurchases, we would be interested only if the market is valuing Culp at a price we consider a substantial discount to a conservatively calculated intrinsic value. And for special dividends, our board would consider distributing such a dividend after fiscal year-end, depending on circumstances such as our net cash level, economic and business outlook, and potential opportunities for acquisitions.

The bottom line is that we are in the fortunate position to be generating significant free cash flow above the requirements to grow our business organically and to maintain a strong net cash position. As such, we can provide shareholders with the added value that comes from dividends and opportunistic share repurchases.

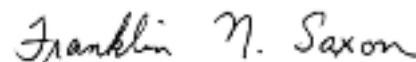
## LOOKING AHEAD

Throughout fiscal 2013, we continued to enhance our competitive position in both businesses and deliver excellent financial results. Looking ahead, we intend to leverage our success and build upon this momentum. Our creative designs and innovative products are resonating with our customers and we have many exciting opportunities to extend our market reach. Culp has a unique operating structure with a flexible and scalable global manufacturing platform, supported by design expertise, product innovation and outstanding customer service. We believe this business model is a distinct competitive advantage for Culp that can provide for further profitable growth, especially as the housing market recovers and consumers gain more confidence.

We are fortunate to have a talented and dedicated team of long-term associates located throughout the world, supported by an outstanding management team and board of directors. Both our past success and confidence in our future reflect this strong foundation. Above all, everyone at Culp is committed to outstanding performance for our valued customers as a financially stable and trusted source for innovative fabrics. We look forward to the opportunities before us in fiscal 2014 and beyond.

Thank you for your continued support.

Sincerely,



Franklin N. Saxon  
President and Chief Executive Officer



Robert G. Culp, III  
Chairman of the Board

August 14, 2013